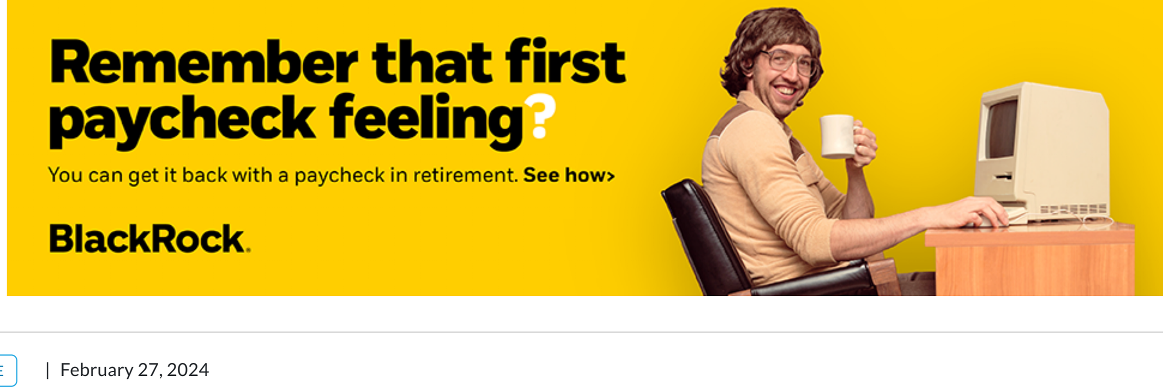
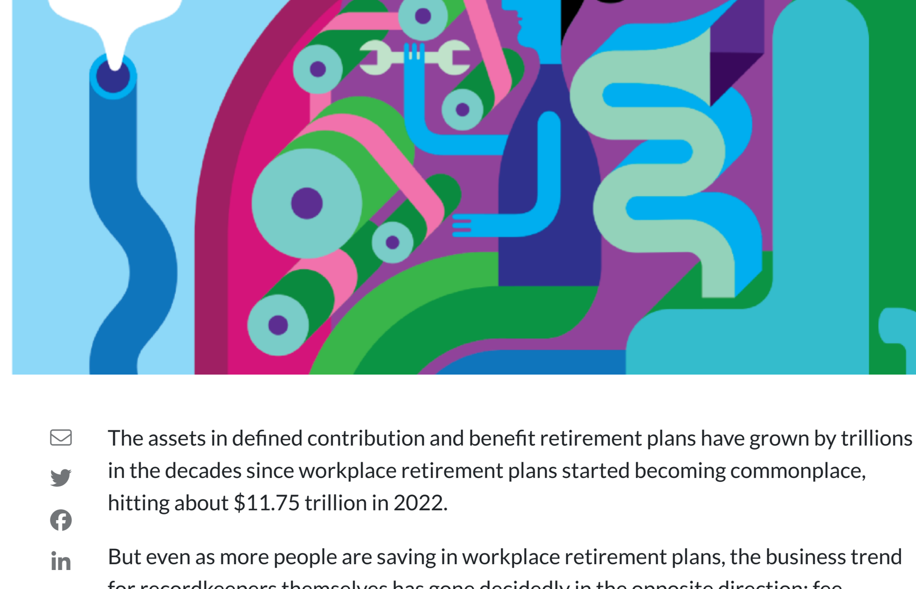


CLIENT SERVICE | February 27, 2024

401(k) World: Recordkeepers, Advisers and 'Co-opetition'

The third installment of Planadviser In-Depth's series on the 401(k) market considers the various ways recordkeepers are looking to evolve.

Reported by BETH BRAVERMAN | Art by MELINDA BECK



The assets in defined contribution and benefit retirement plans have grown by trillions in the decades since workplace retirement plans started becoming commonplace, hitting about $11.75 trillion in 2022.

But even as more people are saving in workplace retirement plans, the business trend for recordkeepers themselves has gone decidedly in the opposite direction: fee compression, consolidation and the need for related services to drive revenue.

One answer the industry has looked to is scale, with larger players gobbling up smaller ones in a trend that some expect to continue before it slows. With that scale has also come diversification of services, ranging from participant education and financial wellness offerings to asset management and, more recently, wealth management. For some retirement plan advisers, these services may be useful—but they also may come in direct conflict with the advisories' own business models.

Since recordkeepers and advisers in many ways rely on each other, the relationship was characterized as "coopetition" by consultancy Cerulli Associates in 2022, a phrase picked up and used at industry conferences and events. How this relationship sorts itself out in the coming years will have big implications for the industry, as well as the participants it serves. Below are some of the key areas in which recordkeepers are currently playing, with the results still to come.

Asset Management

Recordkeepers with asset management arms regularly offer their own retirement plan investing funds to plan advisers and plan sponsors, often at lower fees than other providers. Proponents of such a model see it as a win-win for plan sponsors and participants.

"As a fiduciary, if your obligation is to maximize the value for participants, you almost have an obligation to look at the combination of those things," says Mike Shamburger, head of T. Rowe Price's core markets and retirement plan services. "As long as the asset management is top quality, and it meets the requirements of the investment policy statement [IPS], and you can leverage that for better recordkeeping fees, that's better for the client."

To avoid conflicts of interest, however, plan sponsors and their advisers must still have a process and conduct due diligence comparing those proprietary funds with others available and monitoring and benchmarking those funds on an ongoing basis.

"I have no issue with a plan sponsor making the decision to use a platform's proprietary fund that then results in lower recordkeeping fees," says Tom Clark, partner in and COO of the Wagner Law Group. "As long as those funds are prudent and they otherwise pass the IPS, why wouldn't you go and get that cheaper price?"

Revenue-Sharing

Recordkeepers without their own funds may look to revenue-sharing deals with mutual fund providers. Under such terms, fund providers pay rebates to a recordkeeper for inclusion. However, research has found such arrangements can influence a fund lineup, with revenue-sharing funds more likely to be added and less likely to be removed from the lineup in a given plan.

Revenue-sharing fees are also often less understood by plan sponsors, who may not know they are paying them or that they ultimately go to the recordkeeper, says Marilyn Suey, owner of Diamond Group Wealth Advisors. The fees originated to offset expenses from investment funds' marketing costs but have evolved to a more important revenue stream for recordkeepers.

"People have to watch out for those fees," Suey says. "Recordkeepers have to be able to make money, but you just have to make sure that it's fair."

Beyond the Fund Menu

Recordkeepers are also looking to sync with wealth management arms, when they have them, to manage participant rollovers or in-plan assets for a fee.

"A lot of recordkeepers are investing heavily on the wealth management side to see if they can manage the retail side of the business," Shamburger says. "Some firms with banking capabilities are trying to see if they can introduce those in an effective way, and others are really looking at managed accounts as a way to earn additional revenue."

In addition to managed accounts, recordkeepers are introducing more tech-fueled tools that aim to help participants—at scale—make progress toward financial wellness goals. They are also looking at other ways to earn revenue off of participant assets.

"Some recordkeepers are doing proactive outreach to terminated participants to try to keep that money with the provider, and with the rules around annuities loosening up, some also see that as an opportunity, particularly for the insurance companies, to make some fat margins," says Nathan Boxx, director of retirement plan services at Fort Pitt Capital Group in Pittsburgh. "They're being creative, that's for sure, because the old way of doing things is dead and buried."

Potential for Conflicts of Interest

Many view the push into new services and the hawking of proprietary funds as a necessity for a low-margin business that has experienced massive consolidation, but some plan advisers and sponsors feel there is too much pressure to use recordkeepers' proprietary funds or other services. The recent spate of 401(k) lawsuits alleging that fiduciaries have failed in their role, by simply providing the options most convenient to the recordkeeper, confirm the validity of such concerns in certain circumstances.

Such risks are potentially higher for smaller plans with less time or expertise to spend on evaluating whether a discount is a good deal for participants. Last year, 40% of excessive fee lawsuits related to plans with less than $1 billion in assets, and half of those had less than $500 million in assets, according to JD Supra.

Looking ahead, industry experts expect the trend of consolidation to continue—and for recordkeepers to continue looking for additional sources of revenue.

"The cost of technology, especially around cybersecurity, is just so great that you need a larger and larger denominator of assets to spread those costs across," says Clark, of the Wagner Law Group. "That is pushing up the number of participants and assets that they need to be profitable. The same thing is happening in the advisory world."

On Thursday, our PLANADVISER In-Depth series will focus on DCIO asset managers.

More on this topic:

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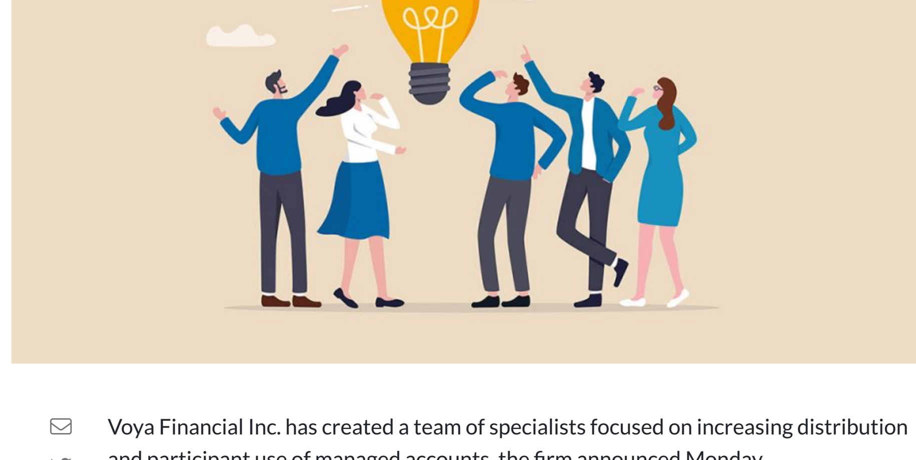
DEALS & PEOPLE | February 27, 2024

Voya Creates Team Focused on Managed Accounts

The specialist group will work to increase managed account participant usage and distribution across Voya platforms.

Reported by ALEX ORTOLANI



Voya Financial Inc. has created a team of specialists focused on increasing distribution and participant usage of managed accounts, the firm announced Monday.

The team was created through an expansion of Voya's Employee Success and Education Team, with four people on the team focused on participant education within its managed account services business. The group will be led by Denis Kelleher, manager of wealth solutions corporate markets, and will focus on increasing managed account usage across Voya's platforms, as well as by collaborating with its phone-based investment adviser managed account team, according to the firm.

Voya's new team of managed account specialists consists of Kelleher and:

Garvis Campbell, previously a client service manager with ADP Retirement Services. He will be based in Hodgenville, Kentucky, and will support the Central Mid-Atlantic region.

Ridha Durrani, previously a private wealth manager with Fidelity Investments. She will be based in Dallas, covering the Central Southeast region.

Patrick Jenks, previously a manager and advice consultant at Charles Schwab, will be based in Phoenix, overseeing the West region.

and **Travis Lowe** has been working as an investment adviser on Voya's phone-based managed account team since 2018, after working at Empower as a retirement counselor. He will be based in Boston, covering the Northeast region.

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